In The Matter Of:

IN THE MATTER OF:

THE TAX CLUB

GARY MILKWICK

July 26, 2011

Precise Court Reporting

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IN THE MATTER OF:

THE TAX CLUB

GARY MILKWICK

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163 West 125 Street
Harlem, New York

July 26, 2011
9:30 A.M.

EXAMINATION of GARY MILKWICK, taken pursuant to Article 22 of the General Business Law and Article 5 of the Executive Law, held at the above-mentioned time and place, before Margaret Savino, a Notary Public of the State of New York.

A P P E A R A N C E S:

STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL
ERIC T. SCHNEIDERMAN
165 West 125 Street, Suite 1324
Harlem, New York 10027-8261
BY: JUDY S. PROPER,
Assistant Attorney General
GUY MITCHELL,
Assistant Attorney General
in charge

LAW OFFICE OF JOSEPH W. SANSCRAINTE
Attorneys for
THE TAX CLUB and WITNESS
1120 Avenue of the Americas,
4th floor
New York, New York 10036
BY: JOSEPH W. SANSCRAINTE, ESQ.

A P P E A R A N C E S: (Continued.)

ALSO PRESENT:
Elana Jacob, Law Student
Sofia Komrskova, Intern
Greg Allen, Intern

G. Milkwick

G A R Y M I L K W I C K, having first been duly sworn by a Notary Public of the State of New York, was examined and testified as follows:

EXAMINATION BY
MS. PROSPER:

Q. Please state your name for the record.

A. Gary Milkwick.

MS. PROSPER: My name is Judy Prosper. I am an Assistant Attorney General in the Harlem Regional Office of the Office of the Attorney General. Today is Tuesday, July 26th, it's approximately 10:25 a.m. With us in the room is Guy Mitchell, Assistant Attorney General in charge of the Harlem Regional Office, Elana Jacob, law student, Sofia Komrskova, an intern in our office, and Greg Allen, also an intern in our office. Counsel, please state your appearance and law office.

MR. SANSCRAINTE: Joseph Sanscrainte, General Counsel with the

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Tax Club, and I am with the Law Office of Joseph W. Sanscrainte.
MS. PROSPER: Please put the address.
MR. SANSCRAINTE: 1120 Avenue of the Americas, fourth floor, New York New York 10036.
MS. PROSPER: Counsel is reminded not to substitute his own opinion and testify in place of the witness.
This examination is being conducted pursuant to Article 22 of the General Business Law and Article 5 of the Executive Law.
The Attorney General has both civil and criminal jurisdiction and as such I'll give you the follow warning: Anything you say or any document you produce may be used against you in a legal proceeding. Second, you have the right to refuse to answer any questions, if a truthful answer would incriminate you. Third, any willful misstatement by you may constitute

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perjury, the Attorney General will permit you have to have Mr. Sanscrainte an attorney present during the examination, his role, however, is limited to consultation with you in order to give you legal advice regarding privileged matters only and not for any other reason.
Do you understand what I have said?
THE WITNESS: Yes.
Q. Have you taken any prescription or non-prescription drugs or medication that would affect your ability to proceed today?
A. No.
Q. Are you prepared to proceed?
A. Yes.
Q. Mr. Milkwick, have you ever testified under oath in any proceeding before today?
A. No.
Q. Have you ever been the subject of an investigation by any law enforcement agency?

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A. No.
Q. Have you ever been convicted of a crime?
A. No.
Q. What is your full name, please?
A. Gary James Milkwick.
Q. Have you ever used any other name?
A. No.
Q. Sir, did you receive notification or subpoena requiring you to appear in our office today?
A. Yes.
Q. What did you receive?
A. It was the letter from your office just stating that I was required to be here to talk to you guys.
Q. How did you come to receive it?
A. I think Joe gave it to me.
Q. Do you recall where?
A. In our office.
Q. Do you know by whom?
A. From whom, from Joe, I think.
MR. MITCHELL: Just for clarity,

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when you are referring to Joe?
THE WITNESS: Joe Sanscrainte.
Q. I am going to mark for identification AG 17, which I am showing to Mr. Milkwick.
(Subpoena was marked for identification as AG17; MS 07/26/11.
Q. Do you recognize it?
A. Yes.
Q. What do you recognize it to be?
A. The subpoena for me to appear here today.
MS. PROSPER: I'm moving AG 17 into evidence please.
(AG 17 was admitted into evidence; MS 07/26/11.)
Q. Now that I have done so, let me read in pertinent part. It's a subpoena and testificandum from the People of the State of New York to Mr. Gary Milkwick, vice president of accounting, is what it says. "Please take notice that you're hereby required to appear the 21st day of July, 2011 at 10:00," which we adjourned to today,

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here in this office. "Any inquiries by Eric T. Schneiderman, the Attorney General of the State of New York, to determine whether an action or proceeding should be instituted against you and or Manhattan Professional Group, Inc., the Tax Club pursuant to New York Executive Law 6312 and New York General Business Law Article 22A." And it talks about your failure to appear, signed by me and dated first day of July.

(Affidavit of Service was marked for identification as AG 18; MS 07/26/11.)

Q. We have marked AG 18, which is an affidavit of service of the subpoena and testificandum. I am going to move AG 18 Affidavit of Service for Mr. Milkwick into evidence.

(AG 18 was admitted into evidence; MS 07/26/11.)

Q. AG 18 reads in pertinent part; "Senior Investigator Louis A. Carter was sworn that on July 7th at 350 5th Avenue Suite 6015 in New York, he served you,

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Mr. Gary Milkwick, vice president of accounting, delivering a true copy to Executive Assistant Nicole Thornton." This is sworn on the 8th day of July.

Throughout this examination, I will be referring to documents that have already been admitted into evidence regarding this matter, and that has previously produced in response to a subpoena for documents and information.

Sir, are you currently married?

A. Yes.

Q. What is your spouse's name and her occupation?

A. Ryan is her name and she is a stay-at-home mom.

Q. Do you have any children?

A. Yes, two children. I have a boy that's about to turn [redacted] and a girl that's about to turn [redacted]

Q. Do you pay any child support for those or any other children?

A. No.

Q. Any college or grad school

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tuition?

A. No.

Q. What is your home address?

A. It's [redacted].

Q. With whom do you reside?

A. With my wife and children.

Q. Do you rent or own your current home?

A. Rent.

Q. How long have you been residing at that address?

A. I think we moved in there November of 2007, so a little over or going on four years now.

Q. Where did you reside prior to that?

A. In Atlanta, George. It was a suburb of Atlanta Powder Springs is the name of that.

Q. How long did you live there?

A. We lived there about 2004, March or April 2004 through until we moved here 2007.

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Q. Do you currently own any real estate in New York State?

A. No, New York State, no.

Q. Do you currently own any real estate in any other state or country?

A. Yes. We own the house that we own in Atlanta. We couldn't sell it. Bad real estate market. We weren't able to sell it before so we rent it out.

Q. Is that the only real estate you own?

A. Yes.

Q. Do you own or lease a car?

A. I own a car and lease a car.

Q. What kind of car?

A. It's a 2003 Infiniti G35.

Q. Is that the one you own?

A. Yes.

Q. And the one you lease?

A. It's a Mercedes, ML 350.

Q. Do you know the year?

A. Year, I think it's 2010.

Q. Do you own or lease a boat?

A. No.

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Q. Any aircraft or motorcycle?
A. No.
Q. Do you have a safety deposit box?
A. No.
Q. Do you have any retirement savings, stocks or investments?
A. Yes.
Q. Where are they held?
A. I have a current 401K, my current employer Manhattan Professional Group. I have some retirement funds with Vanguard from a previous employer, and some from an investment firm called First Investors.
Q. Were you ever enlisted in the military?
A. No.
Q. What is your Social Security number?
A. It's [redacted]
Q. And your date of birth?
A. [redacted].
Q. Do you have a driver's license with you?
A. Yes.

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Q. May I see it, please?
A. Sure.
Q. Let the record reflect that the witness has handed me his driver's license. It reads driver's license ID number [redacted] issued by the [redacted]. Thank you.
A. You're welcome.
Q. The address is [redacted]
How did you get here today?
A. I drove in today.
Q. To Harlem?
A. No. I drove into our office, then took the subway from there to Harlem.
Q. What is your highest level of education?
A. Master's degree.
Q. In what?
A. I have a master's degree in accounting and an MBA master's in business administration.
Q. Do you have any other degree or

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certification?
A. I have a bachelor's in accounting, and a certification of certified public accountant. I guess that's about it.
Q. Please describe your employment history for the last ten years. You can go which whichever way you want.
A. It's probably easiest to start from the beginning and work my way back, so July 2007 through current, I worked at Manhattan Professional Group. Before that, April 2004 until July 2007, I worked for Milkwick & Company CPA, PC.
Q. We need about three more years.
A. Two years before that I was -- well, let's see, when did I start. I was getting my MBA at University of California, Los Angeles, so I started that program September of 2004, completed in March of 2006.
Q. Just to be clear, you were at Milkwick CPA from '44 so before you got your degree; does that make sense?
A. Right.

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Q. You said you were --
A. Right after. I messed up the dates on my school. That would have been 2002. Sorry about that.
Q. It's all right.
A. So that would have been September 2002 through March 2004. Is that ten before that? Almost. Before that I worked at Price Waterhouse Coopers from December '99 through September, August 2002.
Q. At Price Waterhouse, what was your position?
A. I was a senior associate.
Q. That was with a BA?
A. Well, I had my first master's degree in accounting before that. I had a bachelor's in master's before I started at Price Waterhouse.
Q. Where was Price Waterhouse?
A. In Atlanta.
Q. And at UCLA, you got what degree?
A. Master's in business administration.
Q. And at Milkwick CPA, what was

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your position there?
A. Director.
Q. It was your name, so I assume --
A. My father was the owner so I worked with him.
Q. Your father, what does he do?
A. He is a CPA. Tax planning, accounting services, other.
Q. Then you have been at Manhattan Professional Group The Tax Club since 2007; is that correct?
A. That's correct.
Q. Just for clarity, we will just note for the record that Manhattan Professional Group and The Tax Club we will use them interchangeably to mean the same thing, is that good?
A. That is good.
Q. Have you ever been fired from a position other than for downsizing or restructuring?
A. No.
Q. Did any of the prior positions, mainly at Price Waterhouse and Milkwick CPA,

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require you to supervise others?
A. Yes.
Q. Can you describe that a little bit?
A. Price Waterhouse Coopers on certain engagements I supervised between one and three interns and or regular associates or junior associates.
Q. These junior associates, they were accountants as well?
A. That's correct.
Q. And at Milkwick?
A. At Milkwick & Company we had bookkeepers and other accountants that I supervised on certain projects, so that's yes.
Q. How about big was Milkwick CPA, staff-wise?
A. I think when I was there we had between 10 and 12 people. Something like that. It was a relatively small firm.
Q. What is your current position at The Tax Club?
A. Vice president of operations.

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Q. How did you first come to be related to The Tax Club or find out?
A. I actually went to school with Mike Savage who is the president.
Q. Which school?
A. Brigham Young University, so we went to undergraduate together. And about that time in 2007, we found out my daughter had autism and so there weren't many resources in Georgia for that so we were looking to move into this area. I knew Mike was in New York City, so I called and said hey, anything going on in New York, and he said sure, stop by, we're actually looking for somebody. So one thing lead to another. I came up for an interview, then it ended up looking like a good fit. So that's what happened.
Q. Can you describe your current responsibilities at the The Tax Club?
A. Yea, basically in a nutshell, I am in charge of making sure that all the accounting tax services that we provide get fulfilled. So making sure the tax returns

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get done timely and accurately. The bookkeeping as well that we do for clients. Payroll services. So that's basically it.
Q. When you say you're in charge, how closely are you supervising the folks that are working in your department?
A. Fairly closely. I mean, I have managers that report to me and then they have obviously people that report to them, but I work fairly closely with the managers to make sure we're training people and getting work done, recruiting, all that good stuff.
Q. How many managers are there?
A. Three other managers.
Q. How are their responsibilities split up, is it by geography or by what kind of thing they do?
A. Yes. So we separate our teams into time zones, so we have an eastern time zone, we combine mountain and pacific and the central time zones, so we have those three, and that allows us to let the accountants within those zones become

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experts in the tax laws for those states, instead of having somebody to try to know the tax law for 50 states they can get an expert within a few states within that zone. It also allows us to more closely align our schedules with people in -- people in pacific are, obviously, a three-hour time difference from us, so those people come into work later and leave later than say the people in the eastern time zone.
Q. How responsible were you in that structure?
A. Setting up that structure?
Q. Yes.
A. I was pretty integral in setting it up like that. When I started I think there were -- I don't remember exactly, but I think they had just five teams, and they had people that were just assigning clients based on whatever team had capacity. And I wanted to, you know, be able to get people trained more on the tax laws with given states so that one person wasn't trying to learn the tax laws in Alaska and New York

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and Florida, so that was, I think, was an important thing to do.
Q. For the following questions, if you don't personally know the answers from your knowledge or experience, please indicate to me if someone else at The Tax Club does know, and then their name, their position, and then if we need to follow up with them we can do that, but only just testify to your own personal experience or what you do yourself at The Tax Club.
A. Okay.
Q. So you talked about three regions?
A. Time zones.
Q. How many employees work within each of those time zones, would you say?
A. It fluctuates. We staff up more for tax season, so right now we have less than we normally do during tax season. It's also different time zones are different, like there's more people that work in the eastern time zone, more clients.
Q. You can give me the overall

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number?
A. I think right now we've probably got 50 to 60 people in the total combined.
Q. In all three?
A. In all three combined.
Q. Talk to me a little bit about the structure of how it happened. I understand that the company is incorporated in Utah and then registered in New York.
A. Yes.
Q. So then you're the head operation, vice president of operations?
A. Yes, right.
Q. Are you supervising the whole country, is there a breakdown in Utah or is it all happening here in New York?
A. Yes, we have -- there are two entities set up, so Manhattan Professional Group and The Tax Club. The Tax Club is mainly the Utah employees. I don't really do much with the employees in Utah at all, mainly just the people in New York because that's where all the accountants are. In Utah it's just there are some sales people

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and some administrative people.
Q. So there are no accountants in operation?
A. All the accountants are in New York.
Q. While we're talking about accountants, what are the names or titles of the folks that are working in your department; we have the three managers?
A. Yes.
Q. So what degrees or titles do they hold?
A. So, we refer to them internally as zone managers. They would have either a C.P.A. or an E.A. designation enrolled agent or certified public accountant. They generally have, you know, seven to five, let's say five to ten years of experience. And they're the experts that we have.
Q. Experts in what?
A. The taxes and accounting work.
Q. Then, now the 50 to 60 folks that work under them, what are their designation?
A. We have senior accountants.

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Q. What degree might those have?
A. They would have all bachelor's degrees. They would also have either a C.P.A. or enrolled agency designation or be working towards such designation.
Q. You say they have a bachelor's, is it in acccounting or something else?
A. It depends. Sometimes not necessarily always in accounting, we prefer that, but it's not always in accounting they have their degree.
Q. Now back to the three zone managers, can you give me their names, please?
A. Yes. Jonette Esquicias.
Q. What zone is she in?
A. She is a central zone.
Q. Second one?
A. Eastern time zone would be -- right now I think we have co zone managers, so Leo Gordon and Ann, I think her last name is Jung. And in pacific zone Jason Sager. So those are the three zone managers.
MR. MITCHELL: To the best you

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can, each zone manager, if I may, we have at atlantic, pacific and eastern?
THE WITNESS: Yes.
MR. MITCHELL: If you can just make it clear for the record what degree or certification each one has, as best you can.
Q. We talked about Jonette.
A. Jonette is a C.P.A, and I don't remember her schooling to tell you the truth. I am fairly certain she has a bachelor's degree but I am not sure what it's in. Jason Sager is also a C.P.A. Again, I don't remember his schooling to tell you the truth. I am sure he has a bachelor's degree. And Ann, I think, I'm not sure if she is a C.P.A. or E.A. I think she is working towards one, but I don't think she has got either designation yet. Leo Gordon is an enrolled agent. I think that -- again, I think their education is they both have degrees. It would be very rare if we had somebody, especially that high, without a degree.

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MR. MITCHELL: Thank you.
Q. In order to be a C.P.A. or enrolled agent, do you have to have a prerequisite degree?
A. I don't think so for an enrolled agent. For C.P.A. you do.
Q. Is that a bachelor's minimum?
A. Yea, and there's also a hundred fifty hours of education rule, so, you know, a lot of schools will have master's programs, they get you the hundred fifty hours or you have a bachelor's at some subsequent school to get you the hundred fifty hours. Most states require 150 hours for your C.P.A. license.
Q. The enrolled agent, how are they different or similar to a C.P.A.?
A. An enrolled agent is a designation with the I.R.S., so basically, the way it works is to be able to talk to the I.R.S. on behalf of a client, you either have to be a C.P.A. or attorney or you have to be an enrolled agent, so to represent somebody in front of the I.R.S, is what

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those are, so that's their internal designation that the I.R.S. has if you're not a C.P.A. or attorney.
Q. What kind of education does the enrolled agent have?
A. I am not sure what the prerequisite education is. I think there is something, but I am not a hundred percent sure what it is off the top of my head, but most of the people that are enrolled agents would have a bachelor's degree.
Q. Do the enrolled agents that work for The Tax Club in your department, do they have bachelor's degrees?
A. Yes. I honestly can't think of one person that's an enrolled agent that doesn't have a bachelor's degree.
Q. I'd like you to describe the role of your department and how it might interface with other departments, specifically, the sales department. Let's start there. How you may or may not work, and if you don't say you don't, but how you might work with sales.

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A. We work with sales in an effort to transition the client from what the sales department has told them to what we're actually providing them, so we will work with sales to provide training to the sales guys, for example, in what we do, this is how we help a client from a tax perspective or accounting perspective, bookkeeping perspective. We, you know, there's not a ton of back and forth between the two, but you know, it's training and it's communication as to how to best get the client from being sold a product to using the services.
Q. When you say training, what kinds of training are you talking about?
A. It's pretty informal. We'll have a meeting, I'll explain to people how sales tax works or just general topics, you know.
Q. I am going to keep breaking it down.
A. Sure.
Q. So you said you will have a meeting to explain to people. Who are you

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explaining it to?
A. The sales people.
Q. And is it mandatory for the sales people to show up at these meetings?
A. No. They're informal, so whoever's there that day if they're there, yes, to have to come, but you know, it's not super formal.
Q. Is it a part of their training to hear from you?
A. No.
Q. What kind of material would you use when you train the sales folks?
A. You know, I can't even think. Most of the training that I have done personally with the sales people are just oral, so we might have a handout or something. So like I said, ones that I do with training, the training that I do it's pretty informal. We might have a handout or something like that, but I know they get training from other sources, but that's the extent of how fulfillment and I interact with them.

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Q. I am showing you what has been previously marked for identification and has been previously entered into evidence as AG 12. I am going to show it to you. Is that something that you're familiar with?
A. No.
Q. So this is not one of the handouts or such that you would give away?
A. I didn't prepare it.
Q. Not prepared. Was this something that you would use in your training for the sales?
A. That I would use, no. It looks like something that another one of the internally used by the sales team.
RQ:
MS. PROSPER: So we talked about the C.P.A. and E.A. I was going to ask you later, Mr. Sanscrainte, you may want to make a note of this now, but to provide later, the names, the titles and the degrees or certifications for these 50 or 60 accountants.
I don't want to say they're all

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accountants, but 50 or 60 staff of the operation that work under the three Zone managers and their length of employment at The Tax Club.
MR. SANSCRAINTE: Okay.
Q. Other than the C.P.A. and the E.A.s that you mentioned and described, are there any other professionals or para professional that works in the operations department?
A. We do have what we call tax analysts that are more administrative, they're more administrative in nature, so they'd be in charge of collecting information from clients or setting appointments or data entry, that kind of thing. So those people don't necessarily have a C.P. A. Or E.A. designation.
Q. What kind of designation do they have?
A. Generally, most of them I think have college degrees, but it's not necessarily in accounting or anything. They're mainly administrative type data

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entry almost is what I consider them.
Q. So they're outside of the 50 or 60?
A. No. Within.
Q. How many of them are the 50 or 60?
A. I am just trying to think. Probably eight to ten, I am guessing.
Q. Are they designated by zones as well?
A. Yes.
Q. So they're under the supervision of one of the three time zone managers?
A. That's correct.
Q. Do you have any attorney that works under your supervision in operations?
A. No.
Q. Do you have any sort of interaction with attorneys with regard to the work that you do?
A. Not really.
Q. So are the employees, let's say all the 60 to 70, but the three managers, we're talking about all the employees under

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operation right now, are they trained in some way before they begin their work at The Tax Club?
A. Yes. They're generally the zone managers will sit with the people for quite some time and kind of go through all the system, and they will generally shadow a senior accountant for maybe a week, week or so to get the feel for the system and be trained.
Q. Let's talk about the training. What specifically is happening, are they given presentation, material, video?
A. Yes, they are. We also have an online training system as a Reuters system where they have access to, you know, I don't know how many hundreds of classes, but access to all that online type training, and then shadowing the person and receiving kind of all right, this is what I do in this situation, which is, you know, I don't know which is more valuable, but that is also very valuable, how you would talk to clients and all that good stuff.

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Q. Now --
A. Softer skills.
Q. Now, is there a formalized sort of time frame, let's say someone is hired, one of the C.P.A, or E.A.s in one of the time zones. Is there a formalized training sort of you have to learn this, this and this; are they paid when they train? Can you give me more details on how it all happens?
A. Yes. It depends on if we're hiring them straight out of college or if they're coming on as an experienced hire. If they're coming on as they are already a C.P.A. or E.A. their training is going to be different than somebody straight out of school. We don't really have a super uniformed method. We kind of look where that person is and say all right, these are the classes we want to take online, and we're going to have you shadow this person for X amount of time.
Q. Do you personally provide any training for the employee, are you involved

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in that?
A. With the zone managers I do. If there's something we're working on that they haven't done before or need help with something more advanced issue I'll train zone managers on those issues, but I don't really train like junior people.
Q. When you say something we're working on, can you give me an example or talk to me more --
A. If there's an advanced tax topic that the zone manager hasn't had experience with, sometimes they come to me and say here's a topic that I never dealt with before, what have you done in the past. And then we will sit down and go through it and I'll tell them what I have done in previous situations, and we'll research it together. That kind of thing.
Q. When you talk about topics, are those topics related to individual customers; are these questions that are coming from customers or where are they?
A. They would be from a tax return

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if someone's preparing either personal or business tax returns.
Q. Maybe we can come up with a term, maybe fulfillment or something like that because you mentioned that yourself.
A. Right.
Q. What is it that these folks in your division, we will call them fulfillment staff for lack of a better term, or maybe that's a good term, for fulfillment staff, what are they doing. You talked about tax returns, besides that, if anything?
A. They do like bookkeeping, preparing financial statements, they consult with clients on the phone. So as part of services we provide, we provide what we call Unlimited Tax Consultants for clients, so if they want to call at any time and ask questions, whether it be for personal or business taxes, they will spend a lot of time on the phone with a client. The client might say I bought a new car, how do I put it in my business, what do I do, what's the best tax treatment, so questions like that.

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So they're on the phone a lot with the clients.
Q. These are folks who are already customers?
A. Right.
Q. I am going to get to that a little bit later, I just want to get a feel for what your people are doing on a daily basis.
MR. MITCHELL: If I may interject, so I'm clear, when the term is used fulfillment, is that what you just expressed and described, that is fulfillment as a definition?
THE WITNESS: Completing the work for clients, yes. Completing a tax return or completing financial statements. That's what we refer to fulfillment as, completing stuff for clients.
Q. Just on that, related to the product which they purchase --
A. Yes.
Q. -- which we will get into a

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little bit later, so your fulfillment staff is doing the work, I don't want to put words in your mouth, that the client has purchased?
A. That's correct.
Q. Are any fulfillment employees trained to give any kind of legal advice?
A. Not to give legal advice, no.
Q. Are they trained and told not to give legal advice?
A. Yes. We actually do tell them not to divulge legal advice.
Q. How do you tell them that?
A. You know, as part of the training they get, you know, even though -- like I said, it's not necessarily super-formal, they're always told you can't ever give legal advice as part of what you do here. We provide tax advice but not legal advice.
Q. Do you give them any examples of what you would consider legal advice?
A. Yes, we do.
Q. Give me one or two.
A. I know specifically, I mean

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really, the only legal, the only issue I can even think of where it could be even giving legal advice, like say a corporation, so we tell them specifically do not say you should set up an S Corp or you should set up an LLC. What we tell to say is from a tax perspective, setting up an LLC would save you the most in taxes, and then we let the consumer choose what they want to do.
Q. Theoretically?
A. Yes. I mean, that's what we train them to do with the fulfillment staff.
Q. How do you rate employee performance under, just keep knowing that it's under operation because that's what we're talking about.
A. Yes. You mean, what do we look for or?
Q. Yes. Do you have any kind of rating?
A. We do.
Q. So how does that work?
A. So we look at -- we have an actual, a standard formal process for it, so

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we have a form where it has different categories, so for example, you know, has the accountant, how's the level of knowledge of the accountant.
Q. I am sorry, who is rating them, are you doing so or are the zone managers?
A. I rate the zone managers, the zone managers rate the people under them. So, there's everything from level of knowledge to customer service provided to clients, to contributing new ideas to the team to better serve the client. I can't remember all of them, but that's generally how they're contributing and progressing.
Q. Is it a formal time when you sit down with the person and discuss these kinds of things?
A. Yes.
Q. Is it written down?
A. Yes.
Q. How often does it happen?
A. We have the formal process once a year. We're actually starting it right now.
Q. Is there another process?

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A. We give informal feedback to people as the year goes on. The formal here's your ranking for the year. We base raises and things on that. That happens annually.
Q. When you say here's where you are ranking for the year, what do you mean by that?
A. Well, just here's -- we actually have a numerical system. I think it's a scale of one to five. And if you achieve, I think, one is the best, it means top performer, with five being below expectations. So if you get a one, you're going to have a higher raise than somebody who has a three, which would be meets expectation, for example.
Q. So these ratings are tied to raises, you said?
A. Yes.
Q. Can you tell me, approximately, I am sure they will vary, but if they don't you can tell me that too, the salary of the zone managers?

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A. I think right now, probably 70 to 85,000, 90,000 maybe something like that in range.
Q. Other than performance, are there other ways they get raises, I don't want to put words in your mouth.
A. Well, we try to factor all that in to the performance evaluation, so if they did something, maybe this is what you're getting at. We have had occasions where people have done something really great, they're getting great feedback from clients and we will give them the raise before the annual evaluation period, but we try to factor in as much as possible to the annual evaluation period.
Q. Are the interactions with the customer, calls or any other kind of correspondence, e-mail, are they monitored?
A. Yes, we don't do -- I mean, we have access to the calls of the accountants but we usually only check them if the clients complains or something. If the client said this person was rude to me or

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something like that, we will go back to check the phone records, but there's not necessarily ongoing monitoring of the calls of the accountants or e-mails of accountants.
Q. But they are recorded?
A. Yes.
Q. The e-mails that they send to customers or might send, they're kept somewhere?
A. I think so. I am not a hundred percent sure on that.
Q. Do you know who would know if they are kept?
A. Probably someone in the I.T.T. department. I am assume they were but I just can't say for sure.
Q. So you wouldn't know how long they were kept?
A. Right. I wouldn't know.
MR. MITCHELL: You said the recordings are kept, is that fair to say?
THE WITNESS: Yes. I don't know

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how long we keep them or anything, but I know if somebody comes to me and says this accountant had a complaint from a client that said they were rude to them or something like that, I know that I can pull that call. I can get somebody from the I.T.T. department, I can listen to it. I don't know what the retention period is, if I can go back less than a year or something, but I know that in general I can listen to those calls.
Q. Have you listened to them yourself?
A. The zone managers usually do. I have occasionally listened to them but usually the zone managers take care of it.
Q. So, let's play out that scenario. A customer calls to complain and you review the call. What might happen as a result?
A. Depending on what happened. Depending on what went on in the call. If the accountant really was rude to the client, they would most likely receive a

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warning, like a formal written warning, don't treat the clients like this or you're going to be fired next time, but that's the extent. If it was bad, I mean, a lot of times there's a misunderstanding or something we're able to work it out with the client, it's not an issue, but if we were really at fault, we'd try to make it good with the client and discipline the person on the offending side.
Q. Do you have a system of fees or penalties that your staff pays for infractions?
A. No, not for the fulfillment staff, no.
Q. Just to be clear, the fulfillment staff, can they earn any kind of commission of any kind?
A. They can. It's pretty limited. The situations in which a fulfillment person might earn a commission is if the client comes to them and says look, I signed up for your services with this business but my wife actually has a business, for example, and

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she wants you to do her business tax returns too, how much is it. And they will quote him a price and so they would get a commission on that. It's not pro active, it's more of if somebody calls and asked for something directly of them. They don't get any pro active calls like sales does.
Q. How are your employees paid?
A. Salary.
Q. By what means?
A. Just paycheck biweekly. I think most people are on direct deposit.
Q. Do you earn a salary from The Tax Club?
A. Yes.
Q. How much a year?
A. My base is about 200. I think it is 200, and then I have the opportunities to earn bonuses and so up to around 300.
Q. The bonuses are based on what?
A. Performance.
Q. Who rates your performance?
A. The president, Mike.
Q. Do you earn any other money from

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your affiliation with The Tax Club?
A. Not other than that.
Q. Are you any kind of partner or split the profits or anything like that?
A. No.
Q. You're a straight employee?
A. Yes.
Q. Do you have a contract?
A. That's a good question. I think I did when I first started but I think it's expired, I think. I am not even sure, to tell you the truth.
Q. The next couple of questions relate, I'll ask them to you, but again, I want to remind you if you know, if you don't know, it's somebody else.
How does The Tax Club find potential customers?
A. We have lead sources, but I don't really deal with that that much.
Q. What's a lead source?
A. So for example, like a company like a Legalzoom.com for example, where people go on, they will set up their own

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corporation on Legalzoom, and then they get to the end of the application and it says something like congratulations, you're a business owner, by the way, you now have business tax filing requirements would you like someone to contact you. So Legalzoom is an example of a lead source because they sent us potential clients, people who have opted in, but I don't really work too much with the lead source.
Q. So you wouldn't know how they're chosen?
A. No, not really.
Q. Do you know what kind of payment arrangements The Tax Club has with any lead source?
A. There's a revenue share but I don't know what it is for specific partners. It varies, I think.
Q. Do you know if the lead source disseminate any Tax Club information to potential customers in advance of your contact?
A. I don't know.

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Q. We're going to get into sort of more of the meat now of what goes on in your division.
A. Okay.
Q. I want to talk about the services and actual products that are sold and what fulfillment does to fulfill those.
A. Sure.
Q. So let's talk about what services are sold to customers.
A. Okay.
Q. What they are, I know they have lots of names, and just kind of there are a lot of them, so let's start with has already been admitted. And this is my very special way of putting it together so, hopefully, it's legible and that the lines line up.
So this was produced pursuant to our subpoena duces tecum, which just means give us your papers and of the different packages sold. And so we have in the first column the name of the package, how much it cost, half price, monthly price, yearly price, description of it, its website, a

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customer service number, and it says .CS rep product manager, and something filled in there. I also want to show you what I am going to mark 19 for identification.
(Tax Club Packages document was marked for identification as AG 19; MS 07/26/11.)
Q. I am showing you in addition to what has already entered Exhibit 7, I'm going to show you what we marked as AG 19. This exhibit was produced to us after a couple of your colleagues were here before you. After their subpoena hearing we asked for more information, and this stuff was provided to us.
Why don't you take a look at it and tell me if it's something that's familiar to you.
A. I mean, the names of the packages are definitely familiar and description. I've never seen this specific document, this specific document.
MR. MITCHELL: When you say this specific document, you're referring to?

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THE WITNESS: AG 19. I've never seen this specific document, AG 19. The names of the packages and the services are familiar.
Q. Let's stick with AG 19. Would you say that AG 19 is a fair and accurate sort of summary or representation of products sold by The Tax Club?
A. Yes. Looks like it.
MS. PROSPER: I am going to move 19 into evidence.
(AG 19 was admitted into evidence; MS 07/26/11.)
Q. Throughout this next piece if you had to refer, you had something to say about AG 7?
A. This looks like a document that I have seen before. We will use it to update the packages there that are being sold.
Q. And between the two documents, 7 and 19, which of those, if any, are fulfilled by your department?
A. Okay. You want me to go through the list?

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Q. Yes. As I said, they were produced to us. I don't know if one is more comprehensive or updated. This one is several pages, the packages being on, I think, it's four pages across. These are various packages so, yes, let's get through those.
A. Start with 7 and go to 19?
Q. Yes. Take your time.
A. The Corporation Document Package, yes, that would be something fulfilled by my department.
MR. MITCHELL: You're referring to AG 19?
THE WITNESS: Yes.
A. So I'll just go down the package list on 19 and we can talk about each one, if you'd like.
Q. Let's do that. You and I are going to have to share it though because I didn't make copies of that so we all know what we're talking about.
A. So that one, the Corporation Document Package, yes, we would fulfill

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those services. 2011 Corporate Document Package, yes, my department would fulfill that. Business Starter Package, yes, we fulfill that. 2011 Business Starter Package, yes, my department would fulfill that. Business Saver Package, yes, we fulfill that. 2011 Business Saver Package, yes, we fulfill that.
Q. One thing, when you say we would fulfill that, there are several pieces to each one. Are you fulfilling all the pieces?
A. Right, for example, we do, for example, the RA Services is one I saw here. RA Service, we don't have our own registered agent in all 50 says states, so we would outsource that piece, but all the other stuff.
Q. Your department would outsource that?
A. Right.
Q. Your department would?
A. Business Saver Plus Package, yes, we would fulfill all those services. 2011

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Business Saver Plus Package, yes, we fulfill those. Corporation Package A, yes, Corporation Package B 2011, yes. Corporation Package C 2011, yes. 2011 Corporation Package H, yes. 2011 Corporation Package I, yes, 2011 Corporation Package J, yes. Inc B + Resident Agent, yes. Corporation + Kit with Resident Agent, yes.
Q. Now, let's go back to 7. Again, I want to be try to be efficient, but we do have to get through it all.
A. Sure.
Q. Are some of the things on AG 19 on 7; is one more comprehensive than the other?
A. It looks to me like this one is more updated.
Q. This being?
A. This 19 looks more updated because it's got to 2011 and AG 7 is 2009. It looks like this is probably a list of service we had at that point in time.
Q. Now, I'll let you scan this and

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tell me what is on AG 7 that was not on AG 19, and whether or not your department fulfills that.
A. Okay. I mean, obviously, the years are different between the two documents, but I am just looking at the meat of the services.
Q. That's fine. On AG 7 you just reviewed the first page, is there anything on the first page of AG 7 that was not on AG 19?
A. It doesn't look like it to me. It looks, I mean, I didn't look at any every single service and every single package.
Q. I am talking about mostly the package.
A. Yes.
Q. The names of the package.
A. Yes, they're the same, similar.
Q. Let's go to page two of seven now.
A. So do you want me because I don't think E-Tax Hotline on itself was on this page.

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Q. So is E-Tax Hotline something that is still sold?
A. Yes.
Q. So E-Tax Hotline needs to be added to our list?
A. Yes. I don't know if it's sold separately. It is sold. It's part of a lot of these packages. I don't know, I'm not in charge of bundling the different services that we offer, so I don't know if it's sold separately.
Q. So you're saying E-Tax Hotline is part of the others so we'll get a description when you go through each of the descriptions of each of the products.
A. Right. Corporation Kit was also included in some of these. I don't know if we sell it separately or not. Corporate Binders, that's included in some of these other packages. Corporate Pro is also included in some of these packages. So, you know, Unlimited Tax Consulting is something that's also included in some of these other packages. Tax Plan should be included. I

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think it's included, yes. Resident Agent Services is in some of these. Startup Guide is also in some of these other packages.
Q. For the record, that's the third page of Exhibit AG 7.
A. Tax Prep is definitely included. Money Management Guide, I don't think we have that any more. Business Financial Analyst, I don't think we do either of those. Form 1023 Prep and File, we do that. That's a nonprofit. That's the application with the I.R.S. to obtain 501C3. We do complete those. I didn't see it.
Q. That wasn't on this list. What is that one called?
A. Form 1023 Prep & File. We don't do a ton of those, just if a client calls and says I am trying to set up a nonprofit, can you help me, then we will do it, so it's not something that the sales guys sell. Form 990 Prep & File, this would really fall under payroll services that we offer. I don't think we sell that separately anymore.
Q. That's form 990?

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A. Yes.
Q. Go ahead.
A. Actually, I am sorry, the form 990 is the nonprofit tax return. That's what that is. Sorry. California Nonprofit Prep & Filing, California's the only state that has separate applications aside from the 1023 that you file with the I.R.S, so we do that. Again, it's a very limited handful for the year probably. Two Day All Inclusive New York Workshop, that's included in some of these packages. As far as I know, we don't sell is that separately right now. Same with the One Day New York Workshop. Partner Workshop attending one day is part of the workshop, also Two Day Workshop. These are all part of workshops that are included.
Q. These meaning?
A. These workshop packages on this.
Q. Third page of Exhibit 7?
A. Are the same workshop services or workshop material they get in these other packages on Exhibit 19.

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Corporate Document Package Canada. I mean, that -- we don't -- I don't think we differentiate any more between Canadian and U.S., so I think it's included in these packages. So there's the next several on the third page are Canadian, and I don't think we really differentiate between Canadian and U.S. packages any more. These are all Canadian down to the bottom there.
Q. Now we're on the last page four of AG 7.
A. The last page of these, Dissolution of Corporation. This is if somebody calls and says I am done, I want to dissolve my corporation. I don't know that it's included in any of these packages, but we do that work to help people dissolve their corporation. Then below here Sole Proprietorship Package, I don't know that we do those any more.
Q. So are these under your fulfillment, you're saying?
A. They would be if we're helping

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them get their sales tax ID number for -- it does have E-Tax Hotline. I just don't think we have these packages any more is what I am saying.
Q. When you say these, you mean the ones on the bottom?
A. It says, "Below packages only sold to stores online 1032 lead type" I don't think those packages are sold any more.
Q. Those are the six last ones on the page?
A. Right, Sole Proprietorship Package A, B, Corporation, Finance Package A, B, and Finance Package C.
Q. From my notes, what is on AG 7, and you tell me if I am wrong or right, are not on AG 19, are the 501C3 Prep & File, the 990 Nonprofit Tax Return and California Nonprofit?
A. That's correct.
Q. As well as Dissolution of Corporations?
A. Right.

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Q. So, let's work from AG 19 in evidence to describe -- are they progressive or is it like you get your museum membership and then if you pay more you get your museum membership plus two guest passes; would you say their progressive in that way or are there things below or above that won't -- am I making any sense?
A. Yes. I mean, like so, for example, the corporation -- I think, and I understand what you are getting at, the Corporation Document Package includes E-Tax Hotline and Corporation Kit, this 2011 Corporate Document Package includes those two items plus a couple other services.
Q. Exactly.
A. I will say not all packages are necessarily combined, adding on, but some of them, yes.
Q. So, this is not going to be as easy as I thought.
Let us take a two minute break and make two copies of this so we can check off and circle so you don't have to describe

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the same things twice.
A. Okay.
Q. Thank you.
(A brief recess was taken at this time.)
Q. We're going to go through each of the packages, and I see that E-Tax Hotline is in every single one so we will do that one time. So let's begin with E-Tax Hotline, please.
A. So you want to just know?
Q. What do you do, what does fulfillment do for customers who buy E-Tax Hotline coverage?
A. So basically, E-The Hotline is on the member section of our website. Clients log in and there's a button that says E-Tax Hotline, which basically allows them to submit a question electronically that we respond to within 24 hours of a E-Tax question.
Q. And who responds to the question?
A. The accountant in the zone.
Q. Is Corporation & Kit one thing?

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A. Yes. I think that the Corporation & Kit would be the forms themselves, then the kit is actually the binder and they get a seal, I think a stamp, the corporate seal, so I think the kit refers to a portion, and they're getting an actual binder and the seal.
Q. So we're on number three. We're going to call that One Year Personal and Business Tax Prep for fiscal year and package name.
A. Okay. So that is just the completion of a client's personal and business tax return, so the personal would be a 1040, then any federal and state return, and the business would be whether it's a corporation or partnership, so it would be form 1120 or 1065, any associated schedules and state tax return as well.
Q. Those are fulfilled by?
A. The accountant in the zone.
Q. Now we're up to the Two Day Tax Club Workshop.
A. Two Day Tax Club Workshop is

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basically we allow the clients to come in and we have classes on tax planning and business planning. The idea isn't to turn them into tax experts, they don't want to be tax experts, but to give them the basis of things to look for. If you're a business owner this is -- be aware that this is the way you can treat an automobile in a corporation or be aware that as a business owner these are the things you can do for retirement planning. You can set up a retirement plan and this is the tax effects it's going to have. So just to make them aware of certain things so they can best manage their business.
Q. Are they physically coming to The Tax Club offices?
A. Yes, the Two Day Workshop, yes, they actually come into the office.
Q. If you know, when they are purchasing this package 2011 Corporate Document Package, do they then sign up for it or do they know when they're going to be?
A. Right. I am pretty sure what

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happens is that the person that is verifying the sale, the compliance person gives them a schedule and says these are the dates we're going to have the next two or three. We generally do them once a month, which of these work best for you, and we will pencil you in for that, let's us know if it doesn't work, otherwise, we plan on you being here at that time.
Q. Thank you.
It looks like Corporate Tax Pro is the next.
A. That's a program that allows them to keep their -- they log on to it and it allows them to update their minutes of their board meeting or shareholders minutes, that kind of thing. It allows them to keep in compliance with their duties to hold meetings.
Q. It looks like Unlimited Tax Consulting is next?
A. That means they can call in at any time.
Q. How is it different from E-Tax

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Hotline?
A. The E-Tax Hotline is all done via electronically so they're typing in a question, we're typing in a response to them. Unlimited Tax Consulting, they can call in any time and get access to an account and talk to them about whatever they want to talk to them about.
Q. It looks like the next one is The Tax Plan. What is that?
A. That's a general tax planning guide they get, so we take some of the information they provide us, whether they're married or single, different financial information they provide, and it gives some general tax planning strategies for them, oh, by the way, you're not contributing to an IRA, you never contributed to IRA in the past, your adjusted gross income has been at this level, yea, if you contribute to an IRA in the future you can save X amount of dollars in taxes. Things like that are in The Tax Plan.
Q. Thank you. It looks like this

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next one 2011 Business Starter Package included everything we already talked about.
A. Yes, it looks like that to me as well.
Q. Let's talk about Resident Agent Service.
A. So, a Resident Agent Service, if a client -- when the client registers with the State, the Secretary of State, they have to provide an address which they can be served papers for whenever reason. So the registered agent is simply the person that's acting on their behalf to receive those, so some people don't want to be their own registered agent or they live in another state and want to set up a corporation in another state, so things like that, we're the registered agent.
Q. You mentioned earlier that you provide some of Resident Agent Services and you farm out some?
A. We actually farm out all of the Resident Agents.
Q. So you work with folks?

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A. Yes, we work with -- it's C.S.E., a huge company. I can't remember what it stands for.
Q. You said C.S.E.?
A. Yes. Corporation Services Company, something like that. So basically, when somebody signs up for that, we basically fill out the paperwork they need to send to the client and they sign it and send it to the registered agent.
Q. And C.S.E. provides the actual Resident Agent person?
A. Yes, so they're the ones that has the actual office in every state that they receive those something they forward it on to the client.
Q. The customer pays you and you have some kind of agreement with C.S.E.
A. Right, we pay them, the customer pays us, then we pay them, C.S.E.
Q. We're at Business Saver Plus Package and we're on Startup Guide.
A. So the Startup Guide is a basic -- it's like a business planning type

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website that we have where they go through it, someone that has access will go in and enter in the name of the company and what they're doing, and it basically provides them business planning tips and guidance.
Q. Who created this Startup Guide?
A. I am sorry, I honestly don't know the answer to that question. I am not sure if they had it before I started. I don't remember. I am not exactly sure who was the first person who created that. Since I have been here we have we updated it occasionally, but.
Q. It's called a Startup Guide Online, so it's not a physical piece of paper?
A. No, it's not. It's an interaction where they input stuff, so it's online.
Q. I am going to show you what has been previously marked as AG 16. It is not in evidence. It is entitled the Startup Guide Online. I am going to ask you to take a look at it and tell me if it's familiar to

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you, and if it relates at all to this Startup Guide Online that we are discussing now.
A. Yes.
MS. PROSPER: So I am going to enter AG 16 in evidence, previously marked at another date.
(AG 16 was admitted into evidence; MS 07/26/11.)
Q. Who is responsible for the contents included in the Startup Guide?
A. I honestly don't know.
Q. I just want to note that it's the Startup Guide Online and it says legal strategy for organizing your company.
A. I think, I am not hundred percent sure, but I think we purchased the contents from someone else, then added an interactive component to it.
Q. Would you know who that someone else is?
A. No, I don't.
Q. Is this all that's contained in the Startup Guide that you described?

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A. No, I think it looks like it's just one of the steps, I think. See it's got a highlight so I think it's just one of the sections in the Startup Guide.
Q. Would you know what the other sections are?
A. I don't remember to tell you the truth.
Q. Do you have an idea what kind of things?
A. It talks about budgeting, financial planning and that kind of thing, just general business planning topics. Honestly, it's been a while since I looked at it, so I don't remember.
Q. It doesn't have like a URL down here. Who has access to this?
A. In the company or from the client's perspective?
Q. Both.
A. Well, when the clients who purchase it, I think they have to log in, so when they purchase it they have an automatic e-mail that is generated, it has their user

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name and password to be able to log in. I don't know if it's a URL. It might be just the Startup Guide Online, I am not sure.
Q. It's just that we can't get to it if there was a URL.
MS. PROSPER: Maybe this is something, Mr. Sanscrainte, that we can get access to the other steps in the Startup Guide.
MR. SANSCRAINTE: Sure. I'll set you up with a user name and password to get into the program.
MS. PROSPER: That sounds good.
MR. MITCHELL: I have a couple of questions. Take a look at AG 16 now in evidence. Is consists of five pages. Just so it's clear, what is contained in the five pages of AG 16 in evidence is an accurate reflection of what is contained in the Startup Guide given to customers, if you know?
THE WITNESS: As far as I know.
MR. MITCHELL: Thank you. That is all I want to know.

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THE WITNESS: Like I said, it's been a while since I have looked at it so I am not a hundred percent sure, but as far as I know it's accurate.
Q. Let's move to the next, I think this next one is 2011 Plus Package, we've already spoken about?
A. Yes.
Q. So we're on page two of Exhibit 19 in evidence at the top unless we missed anything.
A. I think they're different combinations of the same thing.
Q. I am going to digress because I took a note. You talked about setting up Canadian corporations. Are any of your staff trained in Canadian tax laws?
A. Yes, I think we have one or two people that have done some training on that.
Q. Are they Canadian, did they go to school in Canada?
A. No, I think one of the guys works upstate and so he had Canadian clients so he had some experience. Like I said, we also

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do lot of online training. We do have a firm in Canada that helps us, we outsource certain things to him, especially the French Canadian stuff.
Q. When you say you outsource, what does that mean?
A. So, if somebody had signed up for the E-Tax Hotline or Unlimited Tax Consulting and we didn't know the answer to a question that somebody asked we would send it on to him and we would provide the answer.
Q. Is that the only circumstances of in which you outsource?
A. Yes, I don't think he does -- he might help us with some of the corporation forms but that I don't know. I don't remember exactly everything he does.
Q. He, meaning the person --
A. The person.
Q. -- for you?
A. The person in Canada. The outsource. To answer your question, do we outsource to him.

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Q. When a customer gets to your department, where are they in their process of being a The Tax Club customer, in other words, what happened before they got to you?
A. Before they got to our department, they have had, obviously, they had received a sales call and they said yes to the services. They had their sales confirmed by a second person in the compliance department. After that, we have some customer service department that contacts the client the next day and says here's how to best take advantage of our services. So those customer service people make proactive calls to the clients within 24 hours of them becoming a member of The Tax Club. And then we also have an orientation call with an accountant within the zone that helps them understand how you know, here's -- we have, of course, there's an 800 number to reach directly to one of the zones, so they say here's the 800 number to get directly to us, we're going to be your point contact for the tax services, et

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cetera, et cetera.
Q. You talked about 24 hours for customer service to get in touch with them. Is someone from fulfillment in touch with them on the same date that they are sold the product?
A. Not usually, no.
Q. If you know, what is the process for deciding what products will be offered to what customers?
A. You mean from the sales perspective?
Q. I guess it is from the sales perspective based on what you are telling me. If you know, is there a process and if you know what goes into that process?
A. I don't know.
Q. Let's go back to the actual what happens before. So I don't want to testify for you, so if I am wrong jump in. Sales calls, you mentioned a compliance person. What is that?
A. A compliance person is somebody who verifies the sale, so we have a third

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party other than the sales person and the client, so the compliance person has a script that they read that says okay Mr. Jones, you're purchasing, for example, the Corporation Package A 2011, the price is $1,495 upfront, $49.95 per month, do you agree to those charges, and they say yes or no. So, at that point the compliance person also collects some information from the client.
Q. The compliance person collects the information?
A. Yes.
Q. What kind of information?
A. Of course, one of the things that I can think of in the Tax Plan they collect -- okay, we want to be able to generate this Tax Plan, for example, I am going to collect some general information from you to be able to complete this Tax Plan for you, so are you married. And they have a list of maybe 20 questions they complete, and based on that we receive that information and work on the Tax Plan. So different services, the

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compliance people collect the information that is then used to fulfill some of the products and services. Obviously, with more complicated stuff like a tax return, they're not involved with that, but just to answer the question where the first compliance person will probably be the first call right after the sale.
Q. So, following that, at some point is the fulfillment contact?
A. Right.
Q. Does that fulfillment contact come from you or come from the customer?
A. It comes from the accountant in the zone reaching out to the customer calls them to try to this, you know. Our goal is to get the client to use the services as much as possible. Once we can get them into the system of actually using it and they can see the value, they're much less likely to have any problems with it, but most of the people --
Q. So, after compliance collects the information, how is it that the folks -- is

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there another way besides geography that folks are assigned to various customers?
A. You know, I think, for example, right now we might only have one or two people that do the actual Tax Plans, for example, so they're within the zone so they're part of the team, but they're also focusing on that task which might not be a full-time job, you know, so does that answer your question?
Q. Sort of, yes. Is that person who is doing the business plan, you said?
A. The Tax Plan.
Q. The Tax Plan, who reaches out to who first, the customer or a fulfillment staff?
A. The Tax Plan specifically, the client has given the information at compliance, so unless we have additional questions, okay, this person didn't -- we didn't collect this information, then we reach out to the client for that specific product. Now, in general -- so there's two different things. So specific products like

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that where compliance collects certain information and we fulfill, we're only contacting them on an as-needed basis. The more nebulous type things like unlimited Tax Consulting, we're contacting the client and saying look, here's how you use us, call us, my name is Gary and I am in the eastern zone, call me any time you have any tax questions. They have a little script that they call the client and encourage them to use the services.
Q. Thank you. So, we just spoke about the Tax Plan. Compliance is collecting information, passing it on to fulfillment. How individualized is The Plan?
A. The Tax Plans are, I think I mentioned earlier, that they're somewhat general, they're not super-specific. It's general tax strategies based on their situations, so, you know, if they're married, if they have retirement plans, if they own property. So there's different things so that we can point out, all right,

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if you own property, you're likely to itemized your deductions. So these are the types of itemized deductions to look for.
Q. That's in the Tax Plan. Is that printed?
A. Yes.
Q. How and when does that get to the customer?
A. Actually, I don't think we print them, I think we e-mail them now. I think we were printing them, but now e-mailing them. Within two to three days that's then e-mailed to the client.
Q. So would you say that's the first contact from The Tax Club to the client from fulfillment?
A. Well, depending on the package. I was just giving you that as an example.
Q. Right.
A. That's an example of a case when the client, we're starting something immediately because it's not something that requires them to call in. Unlimited Tax Consulting, they have to call in to ask us a

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question or E-Tax Hotline they have to type an e-mail, so it's more we're reacting, so we try to get them to use those.
Q. So at some point is somebody from The Tax Club, and maybe we have to go package by package, but, for example, E-Tax Hotline it's clear what you just stated, they have to call in. One Year Personal and Business Tax Prep, how does that work?
A. So that we have a Tax Organizer where they enter their information online, so we will send out E-mails January saying remember the tax season -- beginning of January tax season is upon us, log in here to submit your information so we can get your taxes done, because it's good for to us get them to get it done as soon as possible so that tax season is not all in the last two weeks of April, so we send out E-mails saying here's where you need to log in to access the organizer so we can complete your taxes.
Q. What if I don't want an e-mail, can I call?

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A. Sure. We do have some clients that don't want to use the Virtual Tax Organizer, they don't feel comfortable. If that's the case, they'd rather scan their forms or do a hard copy organizer or just some people mail their stuff to us, so we will give them a hard copy organizer, they will fill it out, they will send us a copy of all their W2s, and all their forms, and we will mail it to them.
Q. But you're reaching out to them, a purchaser of the One Year Personal and Business by e-mail?
A. Yes.
Q. Someone who purchases Corporate Records Pro, when is their contact happening with fulfillment?
A. We have somebody that calls. They get an e-mail, the clients get an e-mail with their user name and password, then we have, I think, one person that just calls to say remember to log in for your Corporate Records Pro, et cetera, et cetera, so there's, I think, is one person right now

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that proactively calls the clients to remind them to log in.
Q. Unlimited Tax Consulting, again, comes from?
A. Yes, that comes from the client, that's part of our initial call from the tax team they get, they remind them to use the services and tell them how to use the services and how it works.
Q. So, if someone purchases the Unlimited Tax Consulting, they will get a call from fulfillment?
A. Yes.
Q. First, before they do anything?
A. Right. Now that is not to say we have had people that they get it and even before three hours later they're like I just purchased it and I need to know how to handle this, and that's fine too. That's perfectly fine to do that for the client as well.
MR. MITCHELL: What if the client wants to make a decision to cancel or receive a refund. Can you comment on

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that, if you know?
THE WITNESS: I am not involved a ton with the refunds. You mean after we've given them the advice like we done something for them and then they want a refund?
MR. MITCHELL: Immediately after they've purchased.
THE WITNESS: We have a three-day right to just all their money back no matter what. So in some cases we've actually done work for them, in some cases a lot of work for them, but we still give them all their money back within three days. And I don't want to speculate, but I think there's also a 15-day period they get that they're charged an administrative fee.
MR. MITCHELL: But you're not involved with that?
THE WITNESS: I am not involved with the refund process.
MR. MITCHELL: And no one in fulfillment are involved in the refund

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process?
THE WITNESS: No. If somebody requested a refund they're sent to the billing department and they handle that.
Q. The Startup Guide online, is there a contact by fulfillment and how does that contact take place?
A. I know they get an e-mail with the user name and password. I am not sure, I would imagine we've got somebody calling them. I am not a hundred percent sure of that.
Q. Has the customer already purchased an Incorporation Package at the point where you get involved, fulfillment?
A. Have they already purchased?
Q. They already purchased an Incorporation Package?
A. Yes.
Q. Are they already purchased a specific type of Incorporation Package?
A. What do you mean, like whether it's a Corporation or S Corp?

G. Milkwick
Q. Exactly. Who is The Tax Club employee, it doesn't have to be fulfillment, just overall, that first discusses Incorporation with the customer?
A. The first person is the sales person. Now let me also mention that some of the lead sources, they are already incorporated. I'll give you an example, Legalzoom, they're obviously already incorporated, so we get a good number that already have a corporation set up, so we don't do the corporation, but for the ones that we're helping a client set up the corporation, the sales person is the first person to talk to them about that.
Q. Is there a plan that is most popular, if you know, of all the ones we discussed?
A. I don't know to tell you the truth.
Q. What kind of incorporation structure does The Tax Club offer to help its customers create?
A. It depends on their situation.

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We help them set up S Corp, LLC, C Corps, occasionally.
Q. When is the decision made on which to choose?
A. Probably -- it depends, you know. Sometimes they will express a preference as early as the sales call and then sometimes they want to talk to accounting about that so they do that. So it's depends on how comfortable -- really it's what the client wants to do.
Q. Let's break it down then. How many folks get to fulfillment percentage-wise, who have already chosen with the sales person what entity they want to be?
A. Probably a good number. I am guessing, it's a guess, but 70 percent maybe.
Q. So in 70 percent of the cases, you're guessing, when they reach fulfillment they know what they are, they bought into what they are?
A. Right. They express okay I want

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to be an LLC or I want to form an S Corp, so yes, occasionally they will come back later and say or we'll have a question when we're doing paperwork and we will call them and talk through it with them and we will clarify.
Q. We, being who?
A. Fulfillment staff. Like I said, some people do just say my situation is complicated, I understand the information you're giving me about the pluses and cons of each entity type, but I want to talk to an accountant.
Q. That's the other 30 percent?
A. Yes.
Q. Roughly?
A. Yes. Again, that's just a guess.
Q. That is fine.
So let's now discuss the process either before or after and, again, the 70 percent and the 30 percent of folks of deciding what type of incorporation structure a particular customer needs.
A. Okay.

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Q. Let's start with 70 percent who come to you already. How does it come to you Jim Jones bought an S Corp, I don't want to testify for you. How does it come to you?
A. So what would happen, if they've already chosen, the way we would know is the compliance person, when they take the information from the client, the client will say these are the top three business names, because we take more than one in case the top one or two are taken. They'll say -- at that point the compliance person when they're filling out the corporate information that the client is providing, the address of the business, the Social Security number of the owner, all that information, that's entered at compliance. So at that point would be the first point at which somebody might say I want to be an S Corp or I'm setting up as an LLC or whatever.
Q. If you know, are folks solicited by The Tax Club sales department or do folks

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call in potential customers and say hey, I heard about The Tax Club can you help me?
A. It's a little of both. I'd say majority, again, I am not on the sales side but majority are probably outbound calls.
Q. Outbound from The Tax Club?
A. Yes, to the client. And they're going to people who have expressed an interest in setting up a business and, you know, whatever lead source that it comes from, so the lead source is generally, I think, typical scenario is that a lead source just kind of warms them up. You're going to receive a call from The Tax Club, if you're interested good, if not good, it's your choice.
Q. Do you know if the lead source discusses with them the various different types of incorporations?
A. I don't know. I think some of them might give them pros and cons of each, so that's a good point because I think some of them do kind of have, you know, I've read this article that this lead source gave me

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so I want to be an S Corp because from based on my situation reading the pros and cons, I think that best fits my situation. The ones that don't, my understanding, sales person presents pros and cons of the entity types and the client chooses, but again I'm not really involved that on side.

Q. What about the other approximately 30 percent that comes from fulfillment without having made a choice yet, how do you guys deal with that?

A. So basically they will come in and we will say -- what our guys, fulfillment people are trying to do based on your -- we will look at their situation. A lot of time they'll send in the tax returns and other information that will be relevant, and we will say from a tax perspective you will save the most tax dollars if you go with an S Corp in the situation, and then the client then decides, okay, that sounds good, if you can save us on taxes I want to be an S Corp.

Q. You talked about taxes, what

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about other consequences of being an S Corp are those discussed, other than just the tax consequences?

A. We don't get too much into that. We do in broad terms say corporations generally provide legal protection to you, but we don't really get into details about that. We primarily stick with just talking about the tax consequences of each entity type.

Q. What if someone asks you about the consequences, not tax related but legal consequences or liability or insurance, what happens in those cases?

A. I don't really know. We don't have a ton of that. I think, I mean, ideally they say we're not legal counsel so refer to your legal counsel to answer those questions. But most of the people, I think from my experience, most of the clients that come to us understand we're accountants so they're not really grilling us on legal questions, so they're asking, all right -- what they mainly want to get out of us is

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what's going to save me the most money in taxes.

Q. So that's what you're basing your decision on, would you say advising them on which corporation is best for them?

A. We take the impression we're not advising them on the best approach. We say here are the tax consequences of each. You're paying taxes on Corporation, C Corp, S Corp, you choose which one you want. That's the approach we take.

MR. MITCHELL: Approximately, how many states does The Tax Club work with?

THE WITNESS: Every, all 50.

MR. MITCHELL: Are you familiar with the demographics of the types of clients that call in for structure?

THE WITNESS: It's a wide range. I mean, it's -- I don't know that I'd be able to pinpoint one type of demographic. We have so many clients. It's a very wide range.

Q. What kind of businesses are they,

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are there brick and mortar businesses?

A. Some of them, some of them are E-Commerce businesses. We have a wide variety. It also depends on the lead source. Some of our lead sources are how to set up an E-Bay business, so those are obviously going to be E-Commerce clients, where as the Legalzoom is going to be restaurants or whatever, plumbing. We have a huge range of different types of clients.

Q. As tax consequence-givers, are you aware of the legal consequences that may attach to certain types of entities, are you, Gary Milkwick and your staff aware?

A. I think we're fairly aware, yes.

Q. What happens if an entity or business is already incorporated?

A. Then they won't be buying one of the packages that's included in the Incorporation, so whatever package they purchase we will fulfill those services, so if it's Tax Prep and something else, then we will fulfill those, just like we would in the client that we help set up the

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corporation, but --
Q. On occasions where a customer is already incorporated and The Tax Club sells them a different Incorporation Package, do you know does that occur?
A. Where they're already incorporated and we're setting up a different corporation for them?
Q. Yes, you set something else for them?
A. The only case I can think of when this happens is when -- I know of a couple of clients that have -- when they came to us they already had, you know, I am in construction, a construction company, but I am trying to set up a business doing online, selling something online but I want to set it up separately. That's the case where we would set up a separate corporation for them.
Q. Would you know how many occasions where someone was incorporated or would you know of any occasion where someone was incorporated, for example, as a C Corp, and

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they bought a different corporation and now were an S Corp, after they became a Tax Club client?
A. I don't know of any instance of that other than the one I just described where there's an unrelated entity. So, that's a good point, so I can't think of an instance where somebody came on as a C Corp as a client and they've had a tax consultation with a tax person specifically, and the tax person points out okay, if you file the S Corp, selection and set up payroll, pay yourself a reasonable salary, all that stuff, you can save $6,000 in payroll taxes, that has happened.
Q. Who is involved in that process, the changing of decisions?
A. That would be definitely an accountant giving the client the tax consequences.
Q. Never the sales people?
A. No, not that I know of.
Q. What kind of corporate entities would you help set up?

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A. S Corp, LLCs, C Corp. Even with sole proprietors, some people just don't want to set up a corporation for whatever reason, we'll help them get an E.I.N. for their sole proprietorship, so pretty wide range.
Q. I am going to focus on your word help. What do you do when customer A purchases an S Corp, let's say for example, let's describe the sausage-making process from purchase to output given back to the customer. What's going on?
A. So basically what happens is it would go to sales completed, goes to compliance, the compliance person, I am assuming we're doing the 70 percent where they already decided what they want?
Q. Let's do that.
A. So the compliance person would then take some information such as just general information that you need to set up -- the clients need to put on the form for the corporation. So their name, business address, business phone number, Social

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Security number, if they want to do an S Corp, because they need that on the S selection form. So then that information goes to one of the people that's actually setting up or completing the forms.
Q. Who is that person actually completing the form?
A. One of the accountants.
Q. So what does the accountant do with that information?
A. The accountant with that information then completes the forms.
Q. What forms?
A. There's generally a form with the Secretary of State that you put the name of the corporation. And I think we have software that pretty much automates this but --
Q. Let's talk about the software. Where does the software come from?
A. It comes from a company, I think right now it's Legal Ace, so we complete the stuff on Legal Ace's site, and they basically complete the form which includes

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the Secretary of State form, the S selection if applicable if they're filing an S. Corp, RA form if they're doing Resident Agent Services. That's generally about it. They get a template that they can complete.

Q. They being who?

A. The client. The clients also receive a template for bylaws if they want to use those, so they receive some forms that they can choose to use or not.

Q. Where does your bylaws template come from?

A. The same place, Legal Ace.

Q. So, tell me physically, actually, what is that compliance person doing with the information, are they simply inputting it?

A. They're inputting it into our CRM, into our main system, then the person that's completing the forms for the corporation --

Q. The person being the customer?

A. The accountant. The accountant completing the form actually takes the

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information, and I am not sure, we have been working on a lien to get the information straight to our computer system, but I think there's still a manual process where they are inputting the information on this other software that this populates the State form.

Q. So Legal Ace, you contracted with them?

A. Right.

Q. And they have form for all the 50 states and Canada?

A. Yes.

Q. And you're providing, I don't want to testify for you, your fulfillment staff is inputting this information into their system?

A. Right.

Q. Then what happens?

A. Then we print the form, they're reviewed by one of the accountants reviews it, and then it's sent to the client for the client to sign and mailed off to the applicable State, I.R.S. for the S selection form, if applicable.

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MS. PROSPER: We need to take a break. While we are here it's 12:22 we will come back in 40 minutes or so.

(A recess was taken at this time.)

MS. PROSPER: We have reconvened in the matter of The Tax Club with our witness Gary Milkwick.

It's about 1:10.

Q. We were talking about the sausage-making of what exactly the fulfillment department does to get a person incorporated. So let's start from the compliance person who gathers information.

A. So the compliance person gathers the information from the client, you know, the general information, name of the client, the top three business names, all that stuff. And then it's sent to an accountant to complete the forms to review, then we send the forms to the client where the client signs the form and writes out a check to the Secretary of State and mails it in to Secretary of State, and or the I.R.S. if

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they're making an S selection.

Q. You used the word review, what is the compliance person doing to review?

A. The compliance isn't really doing the review, the review happens at the accountant level, so the accountant goes through -- there's a manual component to the system, so the accountant prepares the form and then someone reviews them to make sure there aren't any blatant typos and stuff like that.

Q. Are they reviewing them for anything else other than blatant typos?

A. Not really because the person doing the review hasn't talked to the client or anyone else about a specific situation so they're not looking for oh, actually this client is in a different tax based on this tax situation, I don't know this is the right -- so it's mainly just typos at that point.

Q. That's the reviewer?

A. Right.

Q. What about the accountant

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themselves, are they doing what you just described?

A. They do review the parts that flow through automatically and they're reviewing those for typos. The client at that point already elected what type of business entity they have, unless they have -- they're generally just accepting that and going on. Now again, if the client wants to talk about or is unsure of the business entity type, they will again talk to the client regarding their tax situation and the different tax consequences of each entity type.

Q. Now, of those, the second type which we approximate at about 30 percent, who makes the first contact, your fulfillment department or does the customer client have to call back?

A. Generally what happens is there will be a note in the system in the CRM that's left by the sales person or compliance person that says client wants to discuss with an accountant tax treatment of

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different business entities based on their particular situation, and then an accountant will call them back. If it's possible there will be cases where it's just right then after the compliance person will transfer them over and we will them talk to them right then, but generally speaking I'd say they would call them back.

Q. Is there a term corporate specialist used in your department?

A. Yes, corporate specialist would be somebody on the eastern team that just does document preparation.

Q. What kind of document?

A. Of corporation documents, S selection, so yes, that would be used to describe somebody who spends most of their time doing that.

Q. Tell me again, specifically, what do they do with the documents when they prepare them?

A. You know, it's the corporate specialist is mainly an administrative type person who it's they're reviewing to make

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sure nothing is misspelled or any problems with something printing out wrong from the software or something like that. They're not the ones who are consulting with the clients regarding tax treatment.

Q. So these admin corporate specialists, what's their training or degree certification?

A. They, I think all of them have four-year degrees. I don't know that they have necessarily, because it's pretty much administrative type job, they're looking to make sure the client's name transferred correctly, it's generally not necessarily somebody that has a ton of tax knowledge, it's generally somebody that's an administrative type person.

Q. Are these corporate specialist folks the same type of people that you previously referred to as tax analysts?

A. They're the same type because we do -- there are enough corporations that we assist people with that there are a couple of people that's mainly what they do, so

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they're roughly equivalent to the tax analysts.

Q. Tell me the difference between a tax analyst and a corporate specialist.

A. The corporate specialist will just spend most of their time preparing forms.

Q. And the tax analyst?

A. They're more of a general rover so they help with admin, they spend a lot of their time on tax prep bookkeeping, that kind of stuff.

Q. If you know, what percentage of customers who The Tax Club help incorporate are S Corp?

A. I don't know. I don't remember know to tell you the truth.

Q. Do you know a general breakdown of the various or are there ones that are more poplar, more used?

A. Yes. You know, certain types of businesses, the business owner will elect to do that, to make the S selection in certain types of business. Real estate, somebody

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owning real estate as a passive income, they're generally not going to elect to be an S Corp because there's not really a tax benefit, so it depends on what the business does really of how I would answer that question.
Q. What percentage, if you know, of your customers are E-Commerce base versus brick and mortar base?
A. I don't know the answer to that either. It kind of fluctuates depending on the lead source who is sending us more. It depends. I don't know.
Q. I am going to show you what has been previously marked as AG 11. It is not in evidence. It's entitled The Tax Club Guide to Incorporate. Is this something that you're familiar with?
A. No.
Q. Is this a something that your department would be involved with or?
A. I don't know. I mean, I am not sure where this came from. I have never seen this document.

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Q. Thank you.
Q. Does Legal Ace review anything and get back to you with issues if there are issues in any of the paperwork?
A. No, no, we just use their software.
Q. So it's strictly software, they don't have a live person for lack of a better term, who is reviewing, it's kind of an input then it spews out?
A. Right. They don't review any of our stuff. I think for their clients they do, but we're just paying to use the software.
Q. Are you familiar with the term "new client orientation?"
A. Yes.
Q. Can you describe what that is?
A. That is a phone call where the clients receive information on how to use our services. There's been a way, I think, we use different terms for these phone calls that we take from fulfillment to the clients, but one of the terms we use for one

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of the calls where we basically inform them of what we do, how they can best engage us, that type of thing.
Q. Is that for every person who becomes a customer?
A. Yes, every new client.
Q. When does that happen?
A. Generally within two to three days after a client signs up.
Q. So even if a client just signed up for E-Tax Hotline or the first package Corporate Document Package E-Tax Hotline and Corporation Kit, they would also get a call?
A. Yes, because the E-Tax Hotline has an ongoing component. We want to make sure they know how to get into the member section website and actively use it. We like to try head off any problems before they exist. It's also a time if the client has any questions for somebody in fulfillment to answer and help them out.
Q. Is there a fulfillment person assigned to a specific customer or does it fluctuate when a customer needs to talk to

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someone who they need to speak to?
A. It fluctuates. What we try to do is not necessarily have a client with one person, just because if that person goes on vacation or quits we like to present the client with the team approach, so we want to present it, I am a member of the eastern zone, I am here as well as several other accountants, we're your accounting team, so that's the approach we try to take. So like I said if we have staffing problems, if somebody leaves or quits, people don't feel like they have been left out to dry.
Q. So specifically, an accounting team doesn't necessarily mean that a bunch of people are working on your case, but that --
A. But the client has access to all of those people.
Q. What do they get to know who they should call if they have problems?
A. I know the clients get a welcome e-mail when they sign up that says you're in New York so you're on the eastern team, you

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will be assigned to an eastern team. And then they get that new client orientation call in which somebody from that team actually calls them and explains that to them.
Q. How many customers does any one fulfillment team, as you call it, service?
A. It depends. Well, it's a tough question because there's lots of different levels. The clients use the services at different levels, so some clients might call us once a year, some might call us once a day. If I am guessing, probably a thousand, maybe.
Q. So a thousand to one?
A. Per team of active people that are actively using the services. That's a guess. I don't really know.
Q. How much interaction does the fulfillment staff have with any one customer during their membership with The Tax Club?
A. That's really up to the customer. If the customer calls in and has a lot of questions, we're going to have a lot of

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interaction with them. If they have the Tax Preparation portion we're going to prepare their taxes, we're going to have interaction on that side. We also do like weekly webinars with the clients on tax topics they're invited to. We try to engage them as much as possible, but it really depends on the clients how much they use the services.
Q. What actually happens if I am client and I dial the number that you've given me, who picks up the phone?
A. Generally a customer service person is going to pick up the phone and route you to, if you say I've got a tax question they would ask your member ID, see that you're assigned to -- if you're in the central zone they would transfer you over to someone in the central zone if you had tax questions.
Q. Would there be a live person in the central zone to answer that question?
A. Yes.
Q. Are you staffed 24 hours in all

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the zones?
A. No, not 24 hours. We try to staff business hours for the time zones.
Q. So what would happen if someone called at 6:00 in their time zone after business hours?
A. After business hours, basically what would happen is they would leave us a message and we will call them back the next day.
Q. Who would call them back the next day?
A. Depending on their question. If it was like I have a tax question I'd like one of the accountants to call me back then one of the accountants for the central, for example, team would call them back that next day.
Q. Are there any products sold by The Tax Club besides the ones that we reviewed in AG 19?
A. Yes, we have a Business Plan Product that I didn't see on this list.
Q. I am going to run through the

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G. Milkwick
list. Feel free to write it down if you need to so we can talk about whether fulfillment fills these or not and how they do so.
A. Okay.
Q. You want me to give you the list first then you can go down the list or do you want to do them one at a time?
A. You can give me the list.
Q. Here are some products that we believe to be Tax Club products. I am going to give you the list and then you will tell me afterwards if this is something that you service. My Essential Plan, All Access Books, Vital Payroll, Business Document Center, Successful Planning or Success Planning, Small Business or Business Credit, Success Merchants Processing, Internet Marketing, My E-Biz, I have Corporate Records Pro on my list so let's keep that off. IKONGO. First of all, one at a time is this something that you service?
A. Okay. You ready?
Q. Yes.

G. Milkwick
A. So My Essential Plan, that is business plan creation, I don't specifically oversee that department.
Q. Do you know who does?
A. Yes. His name is Preston Clark.
Q. What is his title?
A. I think his title is director of business development. Not a hundred percent sure.
Q. So you are not involved in My Essential Plan?
A. No.
Q. If you know, is My Essential Plan designed or used by an entity only after its been incorporated, in other words, can a company who has not been incorporated benefit from My Essential Plan?
A. Yes, because it's a business planning tool, so you know whether or not I am incorporated if I am thinking about opening a business that's going do whatever, it's a useful tool, yes.
Q. Let's move on to All Access Books. Is that serviced by you?

G. Milkwick
A. Yes.
Q. Vital Payroll?
A. Yes.
Q. Business Document Center?
A. No.
Q. Do you know who does that?
A. I don't think we have that. In fact, I know we don't. I think that was when I first started, but it's, as far as I know, it's long gone.
Q. Success or Successful Planning?
A. I don't know what that is.
Q. That's fair. Small Business Credit?
A. Small Business Credit, that we -- I am not sure if they do that any more. At one point it was a system that they would log onto and it would tell them how to get their register with their get a Duns number so they can start establishing business credit under their business name, but I don't think we use that website any more.
Q. Successful Merchants Processor?
A. I don't know what that is.

G. Milkwick
Q. So that means you don't service it?
A. No.
Q. Internet Marketing?
A. No, that is not me.
Q. E-Biz or Business?
A. No.
Q. IKONGO?
A. That was we were doing websites through that company I know, but I don't think there's any activity there any more either.
Q. So of the ones that you service that you stated, All Access Books and Vital Payroll, are there any others that you service that I didn't mention?
A. Not that I can think of.
Q. Would you say this AG 19 and All Access Books and Vital Payroll are the sum total of what you fulfill in your department?
A. Yes.
Q. Let's talk about All Access Books. Please tell me what that is.

G. Milkwick
A. It's basically a bookkeeping solution, full service bookkeeping, so they can fax or mail or the typical mail us the shoe box floor sheets and we pull it in Quickbooks and reconcile your bank at the same time, that kind of thing. Pretty straight forward bookkeeping.
Q. Is All Access Books designed for use by an entity or business that been only been incorporated or could it be used for someone else?
A. It could be either used for either sole proprietors needs bookkeeping just like a corporation does.
Q. Let's talk about Vital Payroll, can you describe what that is?
A. That's our payroll service.
Q. What does it do?
A. It's a full service payroll solution so the client, if they are a business and they want to pay themselves payroll, that's what we do. So we do everything from filing their quarterly payroll tax return to actually setting up

G. Milkwick
their paychecks. All that good stuff.
Q. Do you work with banks with the actual client's money or you just set up systems?
A. No, we set up a system. It's actually A.D.P. system. We use their system. It's an A.D.P. solution.
Q. Who is involved in designing these packages in general, Exhibits 16 and the two we just mentioned. Who is creating them and how are they coming to be?
A. I would say probably Mike the president and Brendan, probably Brendan in sales because most packages, as you saw here, are just a combination of different ala cartes which, you know, I know there's a limitation in our system to be able to do ala carte, so that's one of the reasons why we have so many packages because the way our system was designed, you couldn't just have E-Tax Hotline plus Unlimited Tax Consulting and make with come through on one charge on the credit card, so we have all these packages which can be, you know, unwieldy

G. Milkwick
sometimes but there it allows it to come across as one charge in the client's credit card and just one -- it's a system limitation basically. But as far as who comes up with them, I'd say probably Brendan in sales.
Q. I meant like the contents of it, not the packages, but the contents inside the package, like who created or who put together the E-Tax Hotline?
A. It's a combination of sales and fulfillment would get together and put that together. You know, sometimes with full service bookkeeping and we didn't do that much of it, I'd talk to Brendan, the sales manager, and say we need to sell some more bookkeeping because the clients are asking for the service, so let's get some more options and he would come up with okay let's figure out what the packages should be. All that stuff.
Q. Must a customer purchase one of the basic Incorporation Packages before they can purchase specifically the last two we

G. Milkwick
spoke about All Access Books and Vital Payroll?
A. No. They don't have to purchase one before the other.
Q. I want to go back to the chronology of -- let's start where folks receive the incorporation papers if you can incorporate them. What happens after that if they purchase other items?
A. It depends on what they purchase. If they purchase, you know, something that has an ongoing component like the E-Tax Hotline or Unlimited Tax Consulting, one of those packages they'll received the call that we talked about new client orientation, we're telling them how to become more engaged, try to get them engaged with services as much as possible, tell them how to best use it and all that good stuff. We invite them, I think we mentioned a weekly webinars on different tax topics. We send out, for example, like the webinars we send out e-mails, particularly to the new clients, saying look we have these weekly

G. Milkwick
webinars, this next one we have coming up next week about the tax law changes for 2011, so we'd like to invite you to look out for it, et cetera, et cetera.
Q. Who decides what to sell, what else to sell to clients who have purchased something from this list on AG 19?
A. That depends. I think I mentioned some cases where a client might have another business where they have another tax return they need, fulfillment person would point that out. Sometimes we do tax work for clients and they, at some point, they do their own bookkeeping and they want to start, so an accountant will say we also do bookkeeping, so that way I think that's also from a fulfillment perspective. That's it pretty much.
Q. Is there a time where customers are told, initial customers, they will be called to get information on other businesses, when does that happen?
A. Actually, and I haven't talked about this, there's also a webinars call,

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G. Milkwick
welcome to The Tax Club webinars, that's another thing they also receive at the beginning, we do that, I can't remember, once or twice a week. That's another form where they can go on, they listen to what we do. At that point the person says we offer tax services but we also have these other services as well. We have bookkeeping, payroll, et cetera.
Q. Let's talk about et cetera. Bookkeeping, payroll is there anything else other package that you guys are involved with?
A. Not that I can think of.
Q. So et cetera would be some of these other things that you are not sure of that are sold?
A. Some of them come and go. We try different things. Like business cards, right now I think we have a package where we sell business cards.
RQ:
MS. PROSPER: Can I ask Mr. Sanscrainte to form a complete list

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G. Milkwick
from today's date, a complete list of all packages sold by The Tax Club beyond Exhibit AG 19, so these additional packages that would come to be sold to customers after the initial sales call.
MR. SANSCRAINTE: Sure. And I will produce the most recent information regarding all the different packages that are offered.
Q. So speaking of all those different packages, both the ones that are serviced by you, fulfilled by you, and possibly some other department in The Tax Club, when do clients hear about those and how?
A. I am not sure a hundred percent on how they hear about that. I mean, it's the sales department I am sure calls them but I am not sure how that site works.
Q. Can you estimate a total number of customer or business entities serviced by your department on average over the past three years, let's say 2010, 2009 and 2008.

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G. Milkwick
A. How many business kits, tens of thousands. You want me to guess?
Q. Only if you think it's close. Don't take a wild guess. If you have a number because you have to tell your supervisors or whatever or they tell you, but don't take a wild guess.
A. Yes, I am not sure, I'd have to look at the numbers to see. I don't know off the top of my head.
RQ:
MS. PROSPER: Can we also get that let's say for 2008, 2009, and 2010 a copy of the numbers of customers that are, I guess brought in, new customers that come in, not existing customers. Not like how many customers you have all together but new ones that are brought in?
MR. SANSCRAINTE: Sure. Good thing you clarified that, so new customers brought in to 2008, 2009 and 2010?
MS. PROSPER: Yes, how many

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people based on the sales calls became customers in those three years.
MR. SANSCRAINTE: Sure.
Q. To your knowledge, has The Tax Club or any related entity been the subject of an investigation or enforcement action by any law enforcement?
A. No.
Q. Do you know anything about who is responsible for advertising at The Tax Club?
A. Advertising, I know in general we don't do a lot of advertising just because most of the clients come from partnerships we have with lead sources. I would say Mike, maybe Preston, but like I said, we don't really do much advertising.
Q. If you know, what kind of information might a client already have about The Tax Club before they're contacted by a sales person?
A. Sometimes I think the lead sources will provide them information saying we're a firm, a tax firm that works with small businesses, but I am not really sure

G. Milkwick
what all they would tell them about us.
Q. If you know, is there a way for the lead sources to give potential clients or do they, your information so they can contact you rather than --
A. I think, yes, sometimes that's the arrangement where the lead source will give them the phone number to call.
Q. Do you know if they give them anything else with the phone number, brochures, websites?
A. I don't really know on the lead source end.
Q. Do you work at all with advertising department fulfillment, do you work at all?
A. Not really. I mean, in my involvement with lead source is mainly talking to them about fulfillment, how we do things so I really don't know how they work with their clients or anything.
Q. I want to talk about the website. Is there one Tax Club website or are there different components like different people

G. Milkwick
can access different parts, how does your virtual world work?
A. The main Tax Club site has a lot of it that is accessible to anybody. Anybody.
Q. What is the website, by the way?
A. Thetaxclub.com. So most people go on the website and can access quite of bit of information about the company, what we do, that sort of thing. There's also a place where you can log on as a member and you have access to even more stuff like monthly news letters that you have access to tax tips periodically. That's where you access your Virtual Tax Organizer. So there's just different resources that are available to members that are not available to the general public.
Q. Are there different parts of the site for different packages that you purchase?
A. To some extent, for example, if someone has not purchased Tax Prep, they would not have access to the Virtual Tax

G. Milkwick
Organizer within their member section of the website.
Q. Is it one portal where you put in your user name and ID and you're allowed certain things based on your package, is that it? I am trying to visualize it.
A. Pretty much. Maybe a little bit more rudimentary than that. If you're a member you have access to 99 percent of the stuff. The only thing I can think of that you wouldn't have access to if you didn't have Tax Preparation because we don't want people who don't have Tax Preparation spending five or ten hours filling out a Virtual Tax Organizer but then we say you don't have that, you need to pay for this, so we make that section not available to them. Pretty much everything else. If you're a member and you have an ID and log in information, you can access everything.
Q. Do you know who, maybe a group of people, create the contents that goes on the website or where does it come from, the contents?

G. Milkwick
A. So, for example, the news letter's an example, we create some of that internally, and then some of it's taken from like I.R.S. website because the I.R.S. publishes periodic so we'll include the I.R.S. tips for that month with our newsletter also. A lot of it is generated inhouse by the accountants, though.
Q. The stuff that you write about the I.R.S., where do you get it from?
A. From their section of the small business section on their small business portion of their website.
Q. Did you have jump sites to go to these various areas?
A. We do some.
Q. If you want to go straight to the I.R.S.?
A. Right.
Q. Does your staff, I guess, interface through the website with customers or is that separate outside?
A. Yes, somewhat so, for example, the E-Tax Hotline, that would be a place

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G. Milkwick
where you would, because the client submits the question through the E-Tax Hotline and we would respond through there. Sometimes you just e-mail them the answer depending on there's a thing that asking them what their preference is, so the E-Tax Hotline would be one. A Virtual Tax Organizer would be another. They submit their Virtual Tax Organizer through the website and they post their tax return into their member section of the website. So it's kind of like a client portal in addition to other things I mentioned.
Q. I want to go back a little bit and revisit zone managers, the three of them.
You testified about them developing expertise in the new tax laws. I guess I want to know a little bit how they're hired, what their qualifications exactly are. And so how do they keep up wuth the changing tax laws?
A. It's not easy.
Q. Such as hiring.

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G. Milkwick
A. So obviously if we're going to hire somebody for our zone manager position, they're going to have a certain number of years of experience, and in general we try to promote from within, so the ideal situation, they come out of school, they work as a junior tax accountant, then senior tax accountant, then kind of assistant manager or something like that. And then they become a zone manager because they really understand the company.
Q. They move up through the company a lot of time?
A. Right. As far as how do we keep them up, yes, we go to things like the I.R.S. tax forum, we send our employees there, so that I am not sure if you are familiar with that. The I.R.S., every summer, goes around to different cities and puts on a tax forum where they teach about latest tax laws and some of its I.R.S. employees some of it's like the National Association of Tax Professionals, stuff like that. So then also like I said, most of our

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G. Milkwick
people, especially the ones that are C.P.A.s or E.A.s also have a continuing education component, so they have to have I think for a C.P.A. you have to have at least 40 hours of professional continuing education a year. Then we also have all kind of resources like in our e-mail we get a detailed tax update from Thompson Reuters which is a tax research tool that we have. That's kind of how we do it.
Q. And they, in turn, train in the zone, who now trains the other folks working in their zone?
A. The zone managers are ultimately responsible for training the people within their zone. Those people also are, I think last year every single one of our employees went to at least one of the days of the I.R.S. tax forum, so we try to get them because they like that also, it helps them feel like we're really providing them opportunities to learn and grow, so we try to give them as many opportunities like that as possible. I think I mentioned the online

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tools that we have that has access to literally hundreds and hundreds of classes, and we have the ability to help chart out learning paths through the software, so you're a senior person now, you need more experience with a little bit more complicated areas that you can work on. If you're a new person, you can say all right, you're going to take tax basic 101, so we also use that online tool for training purposes.
Q. Do you ever have attorneys come in to do workshops or training for your folks?
A. I don't think we have attorneys come to our office. Places like the tax forum and other places definitely has some of those people present are attorneys. Tax attorneys, generally.
Q. Last couple of things. Where do you bank personally?
A. Bank of America.
Q. Is that in New York State?
A. I set up my account in Georgia so

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G. Milkwick
I mean, I can access the bank A.T.M. through here.
Q. Any other states where you have bank accounts?
A. No.
Q. What about other countries?
A. No.
MS. PROSPER: Can I get from whoever wrote them down based on the answers we received what document we are requesting from Mr. Sanscrainte or The Tax Club through Mr. Sanscrainte.
MS. JACOB: Number one, the name and title of all 60 employees in the accounting department, we also want their degree or some level of education. The other sections in addition to the Startup Guide online that we had, four or five other sections, so either in print form or user name and password, a complete list of all packages sold in 2011 or what has been offered, not just packages, but the product list including the

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G. Milkwick
extras we went through, and then the number of customers, what newly services were brought on in 2008 through 2010.
MS. PROSPER: Thank you. Observers, do you have any questions?
(No response)
Q. If you know, how are these packages or individual products, how do they come up on people credit cards statement; my question is does it say The Tax Club or does it say the individual package that you purchased?
A. I am not a hundred percent sure on that. I think the packages come up as The Tax Club, I think.
Q. You mentioned a colleague Preston Clark who bundles these packages?
A. Well, Brendan Pack, the sales director, would be the person that's primarily responsible for that.
Q. Is he or someone else who could possibly sort of breakdown, I am going to use AG 7, I believe it is to illustrate what

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G. Milkwick
I am trying to inartfully say. Let me show you again the first page of 7. Let's pick one that has a lot of stuff in it. How about Business Saver Package Plus, so that's on both AG 19 and AG 7, but AG 19 does not give us the benefit of the price, so if we had to use Business Saver Package Plus.
A. It looks like this.
Q. It has a year attached to it.
A. Yes.
Q. Here on Exhibit AG 7 it says that that package cost $4,785, and that's dated 2009 with a $49.95 monthly price. It has several pieces to it which you described throughout your testimony. Is there a way to sort of break down what's worth what in that price, how did somebody come up with the price?
A. I am not really sure of that. I don't deal with that side of it. I am not sure how.
Q. Who would know again, you think?
A. Brendan Pack.
Q. And if you know, it says monthly

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G. Milkwick
price in the fourth column of AG 7, how is that different from P.O.S. price which is the second column, if you know?
A. I mean, obviously, there's an ongoing component to help cover our cost of if somebody's going to use the service for however long they use it, but I am not sure where the 49.95 per month came up.
Q. Not how much it is but what does it represent, you answered the question actually. How long does it go on the monthly price, does it have a finite end?
A. No, until the client wants to stop using it. The packages has an ongoing component like E-Tax Hotline that is always going to have a monthly price associated with it, so once they if they say okay, I am done for whatever reason I'm using somebody else or no longer in business, then they will stop the monthly payment.
(Continued on next page for jurat.)

G. Milkwick

MS. PROSPER: You answered my question. Thank you very much. Now I am really done. Thank you very much.

(TIME NOTED: 2:56 P.M.)

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GARY MILKWICK

Subscribed and sworn to before me this __________ day of ____________________ 2011.

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NOTARY PUBLIC

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CERTIFICATION

I, Margaret Savino, a Notary Public in and for the State of New York, do hereby certify:

THAT the witness, GARY MILKWICK, whose testimony is herein before set forth, was duly sworn by me; and

THAT the within transcript is a true and accurate record of the testimony given by said witness, GARY MILKWICK.

I further certify that I am not related either by blood or marriage, to any of the parties to this action; and

THAT I am in no way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this 18th day of August, 2011.

Margaret Savino

ERRATA SHEET

I wish to make the following changes, for the following reasons:

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